

The Philippines: Making Things Happen

Mid-Year Economic Briefing 05 September 2006

Energy and Power Sectors

Secretary Raphael Perpetuo M. Lotilla Department of Energy







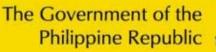
Presentation Outline

I. What has been achieved so far?
II. What are the numbers telling us?
III. What is the next wave of policy agenda?





I. What Has Been Achieved So Far?





Reform Breakthroughs

- **1. Achieving Energy Independence**
- New investments in indigenous energy sources and policy initiatives favoring alternative fuels
- 2. Restructuring the Power Sector for Competition
- Adjustment of power rates to reflect true cost of power generation
- Competitive participation of private sector in energy and power industry
- Commercial operation of the WESM
- Improvement in access to electricity with 94% of barangays already connected to the grid





II. What Are The Numbers Telling Us?





Positive Outcomes

- Sustained interest of investors in the energy and power industry
- Increasing use of alternative fuels for energy independence
- Lower ratio of power debt to public sector debt

Comparative Ratios	2004	2005
NPC deficit to Public Debt	37.3%	12.6%
NPC Debt to GDP	8.0%	6.9%



Reform Measures

Broadening private sector participation in energy and power market

Promote expansion of power generation projects to meet projected system peak demand growth

Grid	Average Annual Growth Rate (2005-2014)	Critical Period	Investment Opportunities* (Additional Capacity, MW)
Luzon	4.3%	2010-2011	1,990-2,290
Visayas	6.2%	2008-2009	980
Mindanao**	6.4%	2006-2007	1,030-1080
Philippines	4.8%		4,000-4,350

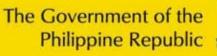
*for the planning period 2006-2014

**immediate power needs being addressed by transfer of power barges between 2005 and end of 2006



Reform Measures

- Continue to bid out power assets through a credible and transparent privatization process
- Adjust power rates to reflect true cost of power generation and help reduce stranded debt
- Establishing a competitive and viable power market and physical infrastructure to support it
 - Started commercial operation of the Wholesale Electricity Spot Market (WESM)
 - Conclude negotiations with power distributors
 - Increased the installed capacity of Leyte-Cebu interconnection





III. What Is The Next Wave Of Policy Agenda?





Policy Directions

- Accelerate sale of transmission and generation assets
- Encourage construction of new and additional capacities by private investors
- Continue working on transfer of assets from National Power to PSALM & Transco
- Push for the completion of transmission projects under the \$850M CAPEX of Transco





Policy Directions

- Intensify search for oil and gas through continued public bid rounds and improved service contracting schemes
- Push for widespread use of alternative fuels
- Manage debts and liabilities transferred from National Power to PSALM through facilities such as hedging



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